Credit Abuse Resistance Education

Credit Abuse Resistance Education (CARE) Program

SAN DIEGO COUNTY BAR ASSOCIATION

U.S. Bankruptcy Court – Southern District of California

This Credit Abuse Resistance Education (CARE) Program presentation was created by Lindsay Fong, Multimedia Training Specialist, at the U.S. Bankruptcy Court – California Southern.

(It has been modified from a presentation originally created for the CARE Program by **Carol Kenner,** a retired Bankruptcy judge from the District of Massachusetts.)

Additions, deletions, and/or corrections to this presentation should be forwarded to Lindsay Fong at this e-mail address:

Lindsay_Fong@casb.uscourts.gov.

Also, you can contact him at (619) 557-2676.

Purpose:

This slide helps to gain the students' interest and to jump-start a discussion about the difference between spending on *wants* and spending on *needs*. From this beginning, the topic can be turned to credit card use and credit abuse.

Suggested script:

We consumers (and that includes you young people) are constantly bombarded with advertisements to buy things and to spend our money. Ads of all kinds most commonly appear in magazines or on billboards; they can be found on television, on the Internet, or in movie theatres before the film starts playing.

Much of the spending by young people also can be attributed to peer pressure. They may buy an item because their friends already have one, or it would be "so very cool" to own one– even before their friends get one.

Suggested script:

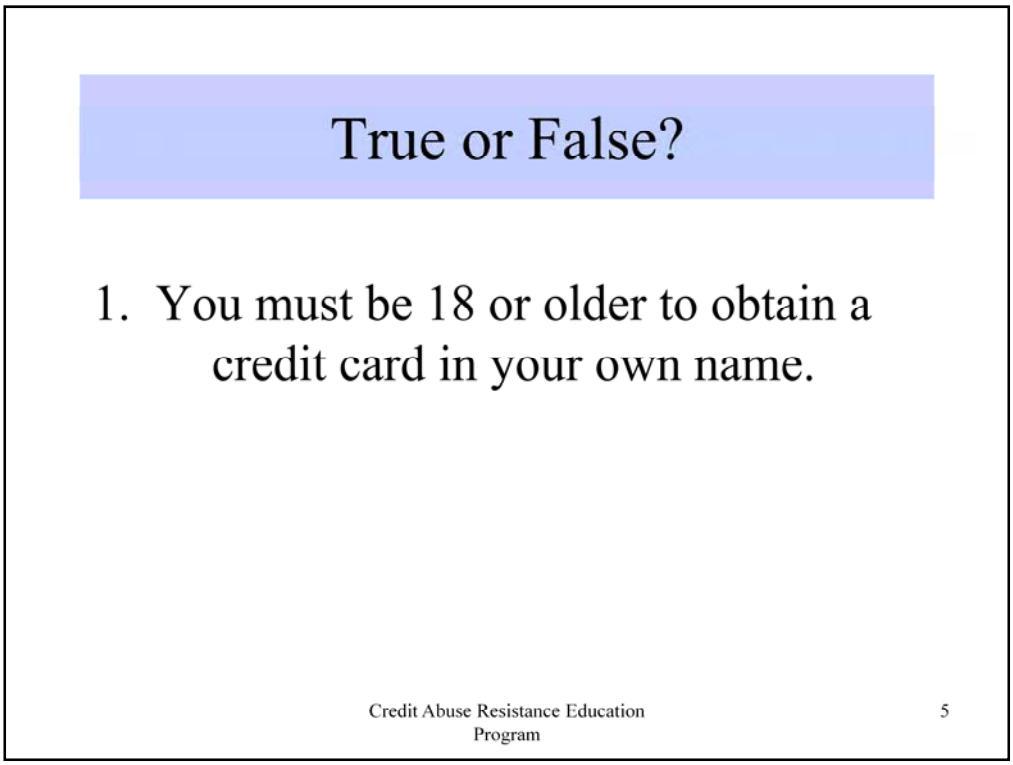
Unless you've saved a lot of cash, you very likely will use a credit card to purchase those "big-ticket" items: cell phones, MP3 players, TVs, digital cameras, computers, games, etc.

Stores and merchandisers make it very easy for you to charge a purchase and to take it home, and start using it that very same day. Internet merchandisers too have streamlined the buying process and have made buying online way too easy. They'll even suggest "last-minute" items to buy while are digitally checking out!

Many fast-food restaurants now accept credit cards as a fast and easy means of payment. Some vending machines are now modified to accept payment by credit card as well as cash.

So in everyday life, easily charging your purchases soon becomes a habit. Soon, you don't think twice about using a credit card to pay for even the smallest items.

Studies have shown that when purchasers use credit cards, they tend to spend more than they would had they used cash. What people don't think about is how they will pay their credit card bills when they come due.



Purpose:

This 11-question quiz on the following slides helps to clarify student misconceptions about credit and credit cards. The questions also can stimulate discussion about related credit topics, such as APR, credit reports, etc.

Presenters should feel free to add their own personal knowledge and/or anecdotes as they apply to the slide topics.

Suggested script:

What do you know about credit cards? Let's find out.

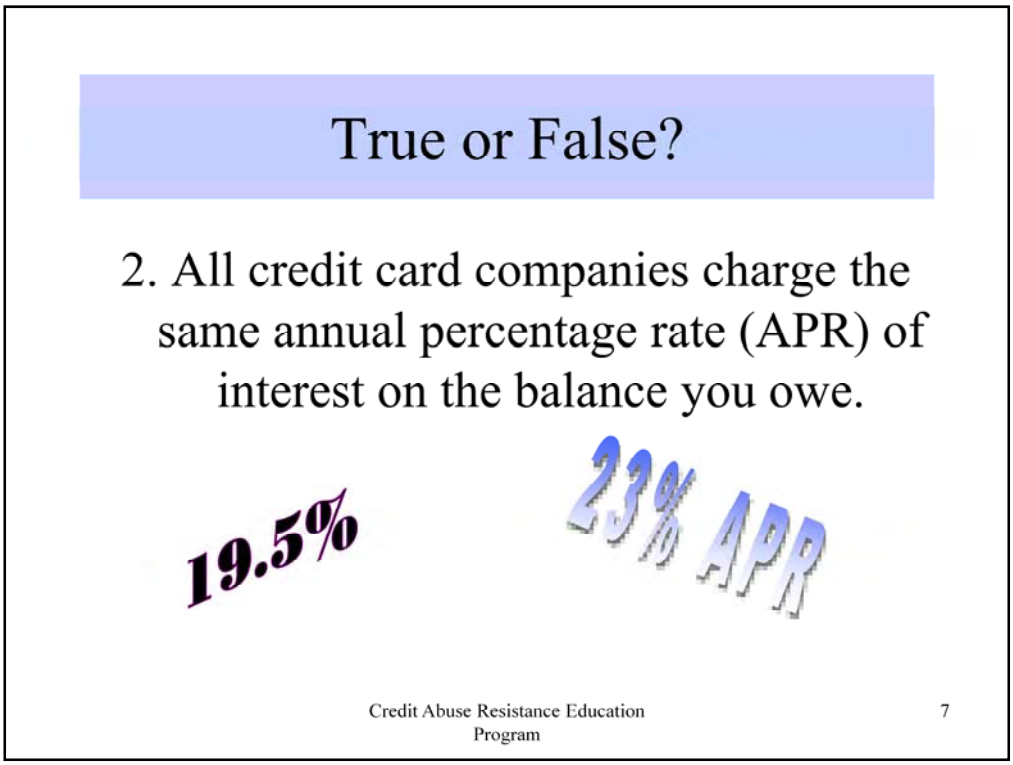
Take this 11-question quiz to test your knowledge. Ten questions are True or False; the last question is a multiple-choice question. The answer to each question appears on the slide following the question.

True or false: You must be 18 or older to get a credit card in your name?

TRUE

1. Before you become 18, you may obtain a credit card in which an adult is the authorized user.

But once you're 18, you can legally incur debt in your own name.



Activity:

This might be a good time to discuss annual percentage rates (APRs).

FALSE

2. Different banks charge different APR rates.

Also, other important terms vary (*e.g.,* annual fees, late fees, grace periods)

Activity:

You may want to:

- Define the term *grace period*
- Discuss the various credit card fees that banks might charge (such as annual fees, cash advance fees, and late fees, to name a few)

True or False?

3. If you pay your credit card balance on time and in full each month, it doesn't matter what rate the bank charges on your credit card.

TRUE

3. Because you pay interest on the **unpaid** amount each month, you never pay any interest charge **if** you pay the entire amount due each month.

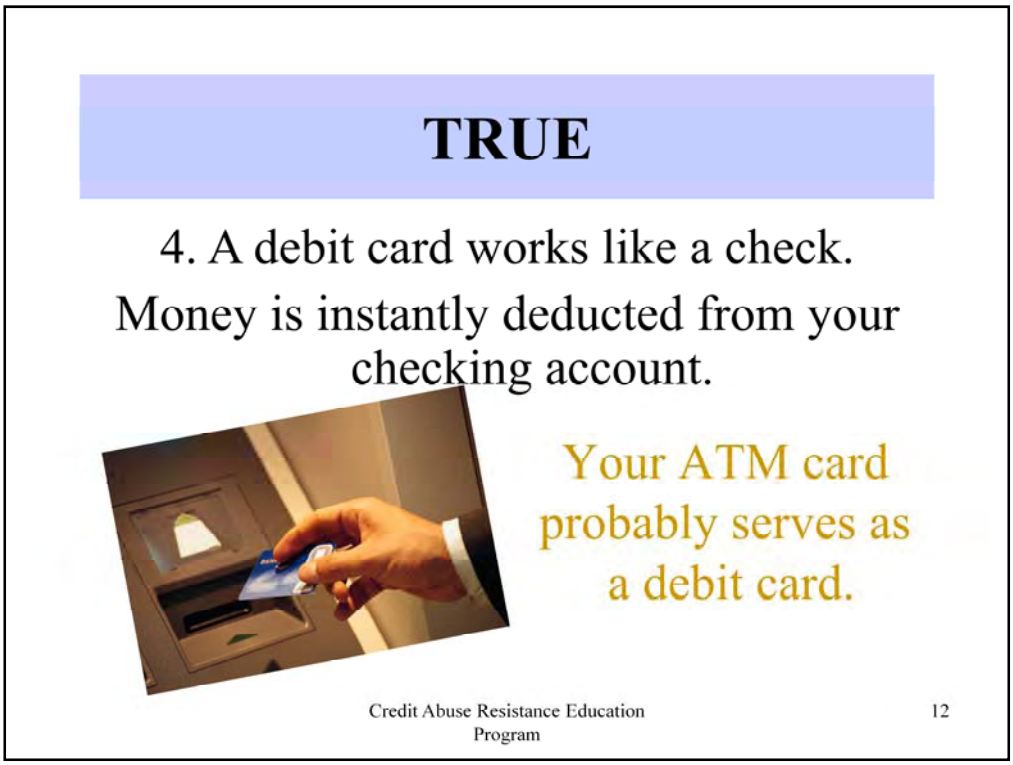
Banks hate it when you do this!

Activity:

- Ask why would banks dislike your paying your credit card bill in full each month?

True or False?

4. You pay no interest on a debit-card purchase.



Activity:

If time permits, discuss the advantages and disadvantages of using a debit card for purchases.

Advantage: You already have the money available in your checking account. Your bill is paid immediately.

Disadvantage: If you lose your card and PIN, a thief can empty your checking account of all your money.

True or False?

5. Everyone over age 18 has a credit report.

False

5. Credit reports exist only for people who have established a credit history.

*Having **no** credit history can have adverse consequences.*

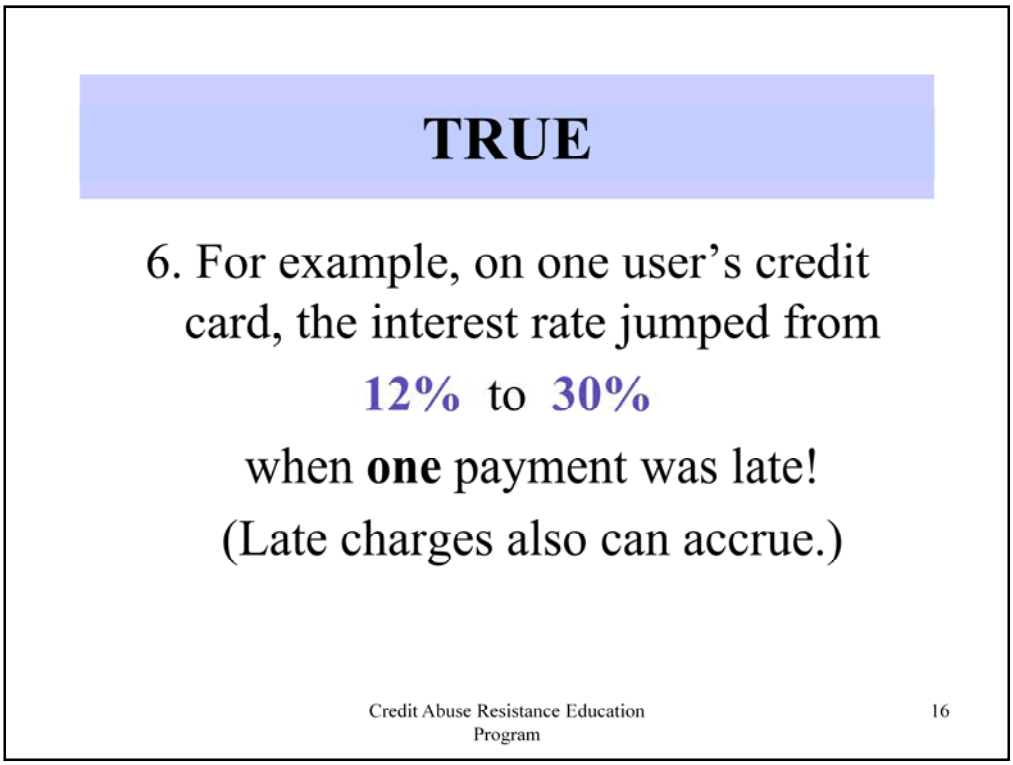
Activity:

Discuss why having no credit history may have adverse consequences.

If time permits, discuss how one might establish a good credit history.

True or False?

6. If you are late in making a few credit card payments, the interest rate you pay may increase sharply.



Activity:

This may be an appropriate time to discuss:

- "Teaser" interest rates (such as 0% interest) that credit card companies use to lure new customers
- How "teaser" rates can increase quickly and substantially when customers miss a payment or make a late payment
- Universal default penalties - Unexpected and dramatic spikes in credit card interest rates for missing a payment, even if the missed payment was on a *different card issued by a different company* (**universal default**)

True or False?

7. Missing just one or two credit card payments won't hurt your credit rating.

FALSE

7. Missing a payment is noted on your credit report. Negative information such as this can legally remain on your credit report for up to 7 years.

Activity:

This may be a good time to discuss:

- How to obtain a free credit report annually at AnnualCreditReports.com
- What kinds of information may appear on credit reports, most important of which is your FICO score
- How a bad credit rating can adversely affect later financial activities, such as obtaining a car loan, applying for a job, applying for a mortgage when purchasing a home, etc.

True or False?

8. If you apply for an auto loan, the lender will probably review your credit report.

TRUE

8. Lenders almost always will review your credit report.

Credit-reporting agencies

EQUIFAX Equifax

TransUnion. TransUnion

experian Experian

Visit

AnnualCreditReport.com for a free copy of your credit report.

Activity:

Discuss:

- Why it is important to regularly review for errors your credit reports from the three major credit-reporting agencies
- How on an annual basis, people can get free copies of their credit reports from the three credit-reporting agencies
- The information that can be found on the Web site AnnualCreditReport.com

FICO Credit Scores

- A score determined by your past use of credit, as recorded by the three credit-reporting agencies
- A 3-digit number between 300 & 850
- Created by **F**air **I**saac **Co**rporation

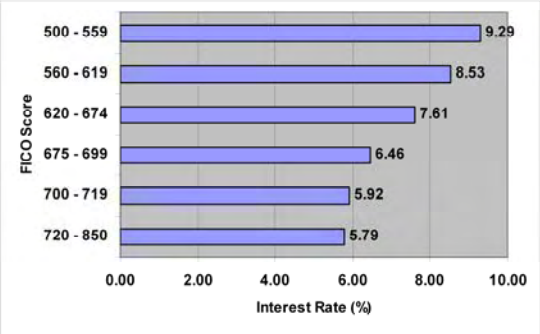
You have **three** FICO scores, one from each credit-reporting agency.

Purpose:

This slide introduces the concept of the FICO credit score.

FICO Credit Scores (continued)

- Used by lenders to determine your interest rate
- Lower FICO score = **higher** interest
- Scores >700 = **lower** interest



Average interest rate for a $200,000 30-year, fixed-rate mortgage on August 5, 2005, based on credit scores nationwide

Source: *Parade Magazine*, 10/2/05

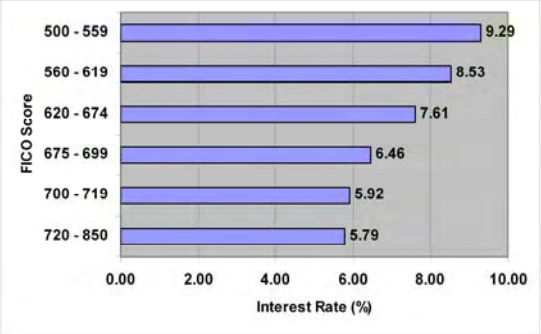
Purpose:

This slide visually shows how **low** FICO scores can result in **higher** interest rates. Conversely, high FICO scores can result in low interest rates.

FICO Credit Scores (continued)

The cost difference between the **highest** and **lowest** credit scores for a $200,000 loan:

- $478 per month
- $5,736 per year
- $172,080 for the entire 30-year loan



Average interest rate for a $200,000 30-year, fixed-rate mortgage on August 5, 2005, based on credit scores nationwide

Source: *Parade Magazine*, 10/2/05

Purpose:

This slide shows a calculation of the cost difference between the highest and lowest credit score for a $200,000 loan.

FICO Credit Scores (continued)

- Also used by lenders to decide:
  - Whether to approve your credit application
  - Whether to increase your credit limit
  - How to treat you if you make a very late payment

FICO scores are **not** part of your credit report.
To obtain your scores, visit www.myfico.com

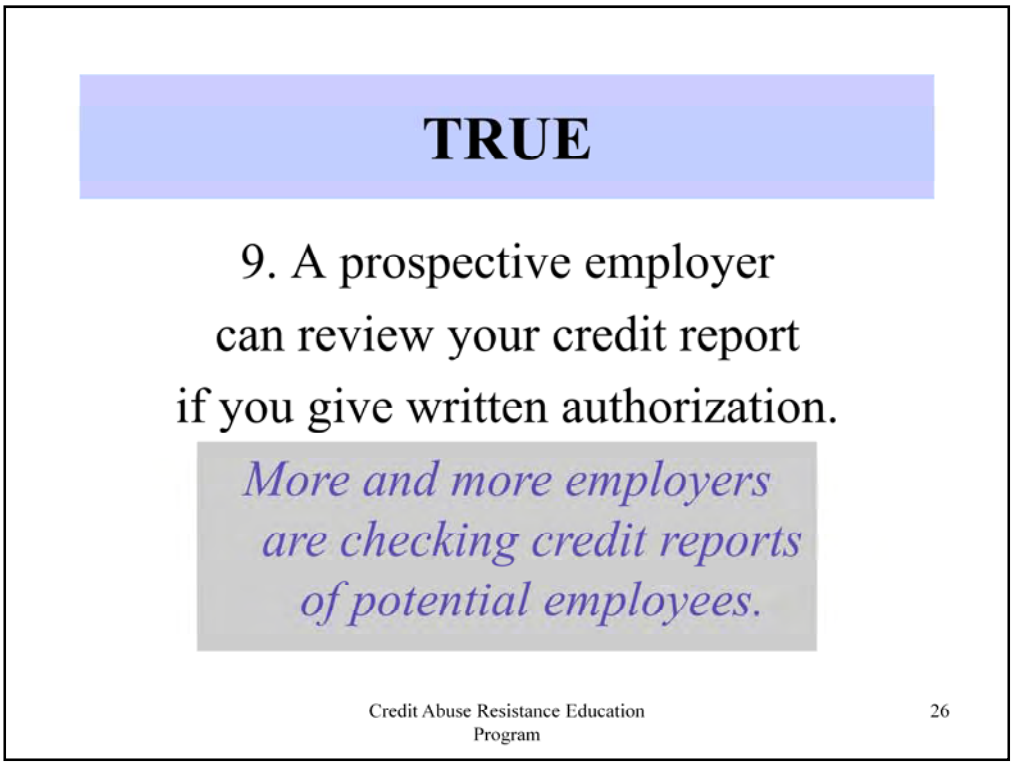
Purpose:

Students should be aware of:

- Other ways FICO scores are used
- The fact that obtaining a credit report does **not** automatically entitle you to your FICO score. Usually, one must pay to receive your FICO score.

True or False?

9. When you apply for a job, your prospective employer may review your credit report.



Activity:

Discuss why employers now are checking the credit reports of prospective employees.

If you rent an apartment, it is likely that the landlord will run a credit check to see how you have paid your bills in the past. Having bad credit may cause a landlord to reject your rental application. He or she may not want to take a chance that you may not pay the rent or even pay it late.

True or False?

10. Bouncing just one check won't cause you to have credit problems.

FALSE

10. If you bounce a check, your bank may put your name in Chex Systems^{SM}.

You could be "blacklisted" for up to 5 years. This might mean you may not be able to use a checking account.

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Q: What is Chex Systems?

A: The Chex Systems, Inc. network is comprised of member financial institutions that regularly contribute information on mishandled checking and savings accounts to a central location.

ChexSystems^{SM} shares this information among member institutions to help them assess the risk of opening new accounts. ChexSystems^{SM} shares information with the member institutions only and does not decide on new account openings.

Resource: https://www.consumerdebit.com/consumerinfo/us/en/index.htm

Multiple Choice

11. The average college undergraduate owes credit card debt of:

    (a) $500
    (b) $1,500
    (c) $3,000
    (d) $5,000

Answer: C

The *average* college student
owes about
$3,000
in credit card debt.

Tips: Establishing Credit

- Establish good credit by paying bills in full and on time
- Take out a small loan and repay it in a timely manner to establish a good credit record
  - Use a parent as co-signer

Purpose:

This slide shows some suggested ways of establishing credit before obtaining a credit card.

The following slides provide other tips for:

- Obtaining a credit card
- Determining if credit is the right choice
- Using a credit card
- Maintaining your credit card
- What to do if you have credit card debt

Tips: Determine if Credit is for You

Before you make a purchase using credit, determine:

- How much the purchase will really cost you
- Whether you can actually afford the purchase
- If it is better to wait and pay in cash

Suggested script:

Sometimes you have to pay for the convenience of using credit – and sometimes it can cost a lot!

For example, a 4-year car loan at a lower interest rate can cost you more overall than a 3-year car loan at a higher interest rate. Other factors, such as the amount of the down payment, also will make a difference.

Activity:

It may be helpful to discuss:

- The wisdom of obtaining only one or two credit cards
- If getting only one card, what kind of card should it be?
    - Suggestion: Get a gas-company credit card. This allows you to pay for an essential item (a need, not a want) and to establish a good credit record. (Remember, don't use the gas card to buy food or other items sold at some gas stations!)
- Why the free gifts are not really "free". If you must have a t-shirt, then just buy one!

Credit Card Solicitations

Notre Dame University campus

2005

2008

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To prove the point about the “free gift” from the previous slide, Judge Hargrove actually found credit card solicitations while visiting his *alma mater*, Notre Dame University, in 2005.

In the photo on the left, he’s holding up one of the free t-shirts that a credit card company was giving away for signing up for a credit card. (By the way, he did not apply for the card to get the t-shirt.)

Upon a return visit in 2008, he encountered another booth with a similar deal: apply for a credit card and get a free t-shirt; see photo at right. This time, the t-shirt is a long-sleeved one!

Tips: Obtaining a Card (continued)

- "Shop" for a credit card with the best terms that suit you
  - Pay close attention to various late fees and penalties

- **ANNUAL MEMBERSHIP FEE:** Refer to your statement in the month in which the fee is billed.
- **RENEWING YOUR ACCOUNT:** You may have your annual membership fee credited to your account if you close your account within 30 days from the mailing or delivery date of the statement containing the fee, even if you use your card during that period. You may call the Customer Service number or write to the Customer Service address on your statement during this 30 day period and your account will be terminated; we will credit your account for the amount of the annual fee.
- **ANNUAL PERCENTAGE RATE:** Refer to the Rate Summary section of this statement. Your periodic rates and APRs may vary.
- **RATE AND ACCOUNT SUMMARIES:** The purchase and advance features of this account may be listed in the Rate Summary Section of this statement under the following titles: Standard Purch, Purch/Adv, Standard Adv, and various numbered Offers. The Account Summary section of this statement includes on the PURCHASES line subtotals for all purchase features, and on the ADVANCES line subtotals for all advance features, of the Previous Balance, new Purchases & Advances, Payments & Credits, FINANCE CHARGE and New Balance amounts.
- **PERIODIC RATES:** (D) and (F) indicate a daily periodic rate. (M) indicates a monthly periodic rate.

Activity:

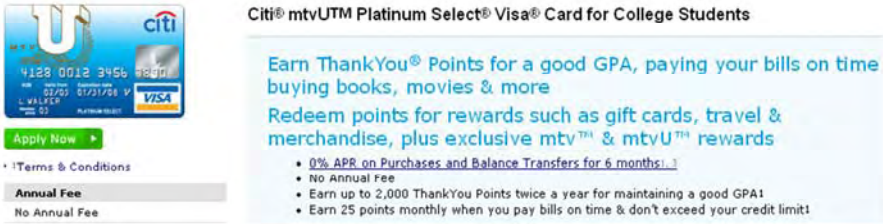
It may be helpful to:

• Discuss information found in the disclosure, such as annual fees, finance charges, annual percentage rates (APRs)

• Remind students that a low introductory rate does not necessarily mean the best terms. If you're going to carry a balance on your card from month to month, the fees and penalties may be more critical than the initial interest rate. If the card has high fees, a short grace period, or a universal default policy, you may want to keep shopping for a "friendlier" card.

"Shopping" for a Card

- Evaluate whether a rewards card is worth any extra fees and costs
- Consider other credit products (*e.g.*, prepaid cards and secured credit cards)



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Worth mentioning:

Rewards cards – those that give airline miles, pay cash back to you, or give points towards pre-selected products – often carry higher interest rates or higher annual fees. (Companies have to pay for those rewards somehow!)

Unless you're paying off your credit card bill monthly and not carrying a balance, you may be better off avoiding many rewards cards and shopping for the lowest interest rate.

Tips: Using Your Card

- Limit credit card use for essential purchases only (**needs**, not **wants**)
- Try to pay the **entire** amount due each month by the due date
- Keep track of where your cards are
  - If you hand a credit card to a merchant, try to keep it in view

Activity:

If time permits, discuss:

Credit card skimming –

An example of credit card skimming: a store employee covertly runs a credit card through an electronic device to capture the card's number from the magnetic strip. The captured credit card number is then used to make unauthorized purchases which get billed to your credit card account.

Tips: Using Your Card (continued)

- Don't max out on your credit limit
  - Watch card balances to avoid overlimit fees
  - Keep your card balance below 30% of your limit
- Try to avoid cash advances

Activity:

If time permits, discuss:

• **Cash Advances**, which often carry hefty fees for the convenience of using your credit card as an ATM card.

Tips: Credit Card Debt (continued)

- Calculate how long it will take to pay off credit cards.
  - Visit Bankrate.com
- Make a plan to pay debt and stick to your plan

Tips: Credit Card Debt (continued)

- Pay more than just the minimum payment amount
- Ignore offers to skip payments
  - Interest continues to accrue on unpaid balances
- Pay higher-interest cards first, but don't miss any payments on **any** card

Tips: Credit Reports

80% of credit reports contain mistakes!

- Check your credit reports regularly
  - Visit AnnualCreditReport.com for free copies
- Contact the credit-reporting agency to correct any inaccurate information or errors

Worth mentioning:

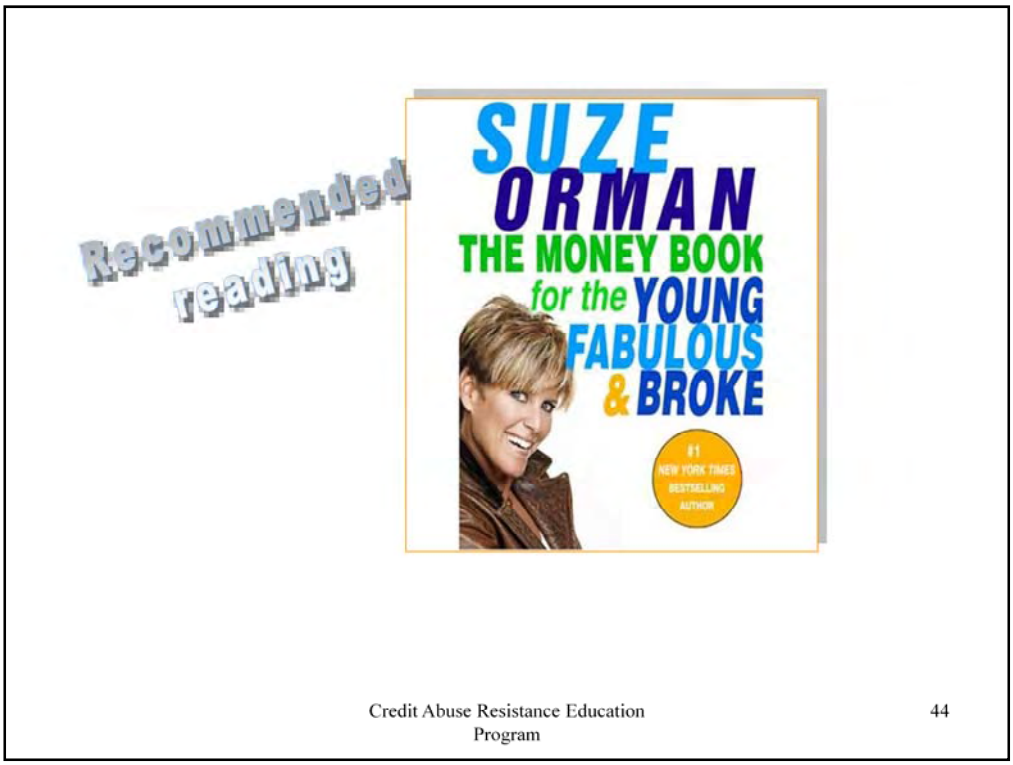
• Credit reporting agencies are by no means infallible. They too can make mistakes. By checking your credit reports regularly, you can catch any errors that may appear. It is important for your credit history that you make efforts to have the agency fix any errors you may discover.

Activity:

• Recommend to students other helpful Web sites or printed resources that appear on the Students or Resources pages of the CARE Web site (see next slide for Web address).

Visit the CARE Web site Students page

www.casb.uscourts.gov/html/CARE/index.htm



This book, *The Money Book for the Young, Fabulous, and Broke* by Suze Orman, may be helpful to high school seniors and college students interested in learning more about becoming more financially savvy.

A more detailed description of the book can be found by searching Amazon.com.